Oglebay Norton

1973 Annual Report

CONTENTS

OGLEBAY NORTON COMPANY

EXECUTIVE OFFICE
1200 Hanna Building, Cleveland, Ohio 44115
Cable Address: ONCO-CLEVE, Telephone (216) 861-3300

BRANCH OFFICE
P. O. Box 1064, Virginia, Minnesota 55792
Telephone (218) 741-5222

SUBSIDIARIES
Canadian Ferro Hot Tops Limited, 345 Arvin Avenue
Stoney Creek, Ont., Canada, Telephone (416) 662-8381

Central Silica Company, 806 Market Street
Zanesville, Ohio 43701, Telephone (614) 452-2775

T & B Foundry Company, 2469 East 71st Street
Cleveland, Ohio 44104, Telephone (216) 391-4200

TRANSFER AGENT AND REGISTRAR
The Cleveland Trust Company Cleveland, Ohio

COUNSEL
Thompson, Hine and Flory Cleveland, Ohio

ACCOUNTANTS
Ernst & Ernst Cleveland, Ohio

FINANCIAL HIGHLIGHTS

	1973	1972
Gross operating income	**$72,717,870**	$66,314,840
Income before extraordinary item	**6,077,164**	4,728,689
Extraordinary item	—	(1,800,000)
Net income	**6,077,164**	2,928,689
Cash dividends paid	**2,499,398**	2,365,324
Per common share (*)		
Income before extraordinary item	**6.01**	4.54
Extraordinary item	—	(1.94)
Net income	**6.01**	2.60
Cash dividends paid	**2.15**	2.00
Equity per common share	**65.99**	62.09
Working capital	**26,036,995**	23,431,073
Total assets	**97,411,257**	89,404,397
Stockholders' equity	**70,518,908**	66,974,392
Depreciation and amortization charged to costs and expenses	**3,918,752**	4,004,466
Expenditures for properties and equipment, including investment in the Eveleth Taconite project	**9,724,613**	2,513,804

(*)Per share figures, except equity per common share, are based on the average number of common shares outstanding during each year and have been computed after provision for annual preferred dividends, and in 1973 stock options. Equity per common share is based on the actual number of common shares outstanding at year end.

To Our Stockholders:

From the standpoint of operating results, 1973 was by far the best year in the history of Oglebay Norton Company. Sales and operating revenues amounted to $72,718,000, compared with our previous high of $66,315,000 in 1972, or an increase of more than 9.5%. Net income in 1973 rose almost 29% to $6,077,000 from the comparable 1972 income before an extraordinary item of $4,729,000 and is well over our previous record net income of $5,262,000 in 1969. Earnings per common share in 1973 were $6.01, after provision for applicable preferred dividends. Earnings per common share in 1972 were $2.60, after an extraordinary charge of $1.94 per share as a result of closing the Norton Mine.

Of even greater significance are the ratios of net income to sales and to stockholders' equity of the Company. The 1973 net income represents a return of 8.36% on sales and revenues, a figure which we have not approached since the comparable 1969 figure of 8.37%. The return on stockholders' equity for 1973 was an encouraging 8.84%.

Although not every segment of our business was able to attain planned objectives, those operations which fell below expectations in 1973 recorded good performances in light of circumstances that were, for the most part, beyond management's control. Nevertheless, we still look forward to the year in which maximum results are achieved by all segments.

The earnings figures confirm significant improvements in our business and are most encouraging, but, in order to cover the cost of replacing or expanding facilities today, they simply are not adequate. Because of the serious inflation, profit margins and cash flow must improve if we are to generate the capital necessary for the new ventures and expansion opportunities we foresee for our Company. Every profit center of our Company has experienced markedly higher costs of energy, supplies and purchased services. Although we were able to effect modest price and rate increases from time to time during the year, they were not completely compensatory because of frequent and substantial increases passed on to us.

The unusually strong demand for our products and services, which we reported at the end of 1972, continued through 1973 into the first quarter of 1974. This reflected, for the most part, an exceptionally high level of steel production in peacetime. Principal beneficiaries of these conditions were our vessel, hot top and iron mining operations. Three of our straight-deck bulk vessels operated into mid-January 1974 for the first time in history and other units of the fleet were operated until late in December. The vessel operations also benefited from more favorable sailing conditions than during the preceding season. Offsetting these advantages were soaring vessel fuel prices and repair and construction costs. Stockpiles and product inventories of our customers were substantially depleted and in some segments of our business, such as Eveleth Taconite Company and T & B Foundry Company, the market was stronger at year end.

Of great importance to our Company has been the progress made during the past year on programs to expand certain operations. Last year, we reported we had under consideration several projects which could develop and improve future earnings. We have made significant progress on some of these. Others have advanced more slowly, but none have been abandoned during the past year and new opportunities are being carefully evaluated.

Recently, we announced plans to participate with three other steel-producing companies in a major expansion of Eveleth Taconite Company operations. Armco Steel Corporation, The Steel Company of Canada, Limited and Dominion Foundries and Steel, Limited have signed letters of intent with us to go forward with the biggest single project in our history. We are optimistic about the potential contribution of the project to Oglebay Norton's future.

In May 1973, we announced plans for the construction and operation of a large coal loading facility near the mouth of the Licking River at Newport, Kentucky. This operation will be serviced by the Louisville and Nashville Railroad Company and will be capable of dumping about 8,000,000 tons of coal per year for barge movement to utility plants and other facilities along the Ohio River. With the increasing demand for low-sulfur coal from southern mines because of environmental restrictions, we think this operation has a very bright future.

We are also planning a major expansion of our Ceredo, West Virginia, coal loading facility which has enjoyed a steady improvement of performance with the strengthened demand for coal. Final specifications are being formulated and we expect to proceed with the construction of the new facilities shortly.

Some time ago, we acquired an interest in Laxare, Inc., a coal mining company in West Virginia with substantial reserves of metallurgical coal. In addition to financial assistance in developing the coal reserves, we act as exclusive sales agent. We have recently concluded a long-term contract with a major steel producer for the sale of the output of the mine and have also made arrangements for the future development of the reserves by that company on a much larger scale.

We have also made significant capital expenditures for expansions or extensions to our facilities or activities in other parts of the Company, including Eveleth Taconite Company, Columbia Transportation Division, Ferro Engineering Division (particularly in Canada), T & B Foundry Company and Central Silica Company. The most significant investments were the purchase and conversion of the Steamer Hillman and our share of the cost of a mini-expansion of Eveleth Taconite Company facilities. We expect capital expenditures during 1974 to substantially exceed 1973 figures. We are confident that the improvements will enhance the profit performance of each.

In January 1974, we purchased the assets of The Cleveland Metal Stamping Company, a small producer of steel and aluminum stamping products. The operation has become a wholly owned subsidiary of Oglebay Norton Company and will continue to operate under its former trade name. In addition to continuing its operations as an important supplier of component parts for our Ferro Engineering Division, we expect to increase its outside sales to users of metal stamping products.

As announced previously, we sold our facilities and equipment at Toledo Overseas Terminals Co. in December 1973. It was a difficult decision for us, since we had commenced operations in 1959 with the opening of the deeper St. Lawrence Seaway. We were never quite able to attain an acceptable and consistent performance at this facility. Despite a very impressive performance in 1973, we concluded that we could get a better and more consistent return on investment in our other lines of business.

Mr. Arthur B. Rathbone, Vice President-Ore Sales, and Mr. Charles W. Ferris, Vice President-Administrative, retired from active service. Mr. Rathbone served our Company for 38 years and Mr. Ferris, for 33 years. Mr. Paul G. Sullivan, our Director of Coal Sales who lives in Detroit, also retired after 37 years of service. We are grateful to them for their loyalty and contributions to our Company. We have closed our Detroit office and have transferred the activities of that office to Cleveland.

In August 1973, Mr. Renold D. Thompson was elected Executive Vice President-Operations and Mr. Keith S. Benson was elected Executive Vice President-Administration and Finance.

In November 1973, Mr. Edgardo A. Correa and Mr. Donald W. Mitchell retired from our Board and were elected honorary directors. Mr. Correa, who was formerly associated with Armco Steel Corporation, has served as a director since 1966 and Mr. Mitchell's service as a director began with The Columbia Transportation Company in 1950. We are indeed grateful to both of them for their valued counsel and constructive service as members of our Board. Messrs. Thompson and Benson were elected directors of the Company to succeed Messrs. Correa and Mitchell.

In May, we increased the regular quarterly dividend on the Company's Common Stock from 50¢ to 55¢ per share. Dividends per share paid during 1973 amounted to $2.15 for the common stockholders and, on the Convertible Preferred Stock, $2.75 for the holders of our Class A and $2.50 for the holders of our Class B.

The present outlook for our Company in 1974 is very good. Sales contracts, bookings and order backlogs indicate another successful year. However, the atmosphere of uncertainty that exists because of the energy crisis, inflation and shortages of many vital materials calls for considerable restraint in making a prediction at this time. The economy today appears to us much weaker than it did as recently as the end of 1973. Our operating managers are faced with their most serious challenges in the last three decades. We are confident that they will be met with the dedication and diligence that made possible the impressive results of 1973. However, if meaningful progress in solving the energy crisis and the inflation problems does not come fairly soon, it is entirely possible that there will be some postponement or curtailment of operations and expansion plans in the industries we serve. In this event, our earnings will be adversely affected, but we still remain optimistic about the chances for a good year in 1974.

Our Company's financial position is strong and liquid. Our organization, we believe, is an unusually strong one, despite the loss of certain key people during the past year. We look forward to utilizing our financial and human resources in some exciting internal growth plans. At the same time, we intend to continue our efforts to broaden and diversify our base of activities, with considerable emphasis on natural resources.

On behalf of the Board of Directors, we wish to thank our employees for an exceptionally fine performance during the past year. We also wish to thank our suppliers and customers for their loyalty and patience during the especially challenging last six months.

Courtney Burton — Chairman

John J. Sawyer — President

March 22, 1974

LAKE TRANSPORTATION

Columbia Transportation Division

Columbia Transportation Division operated at capacity to meet a strong demand for bulk raw materials to sustain the high level of steel production. Coupled with favorable operating weather conditions, this produced record earnings for the division.

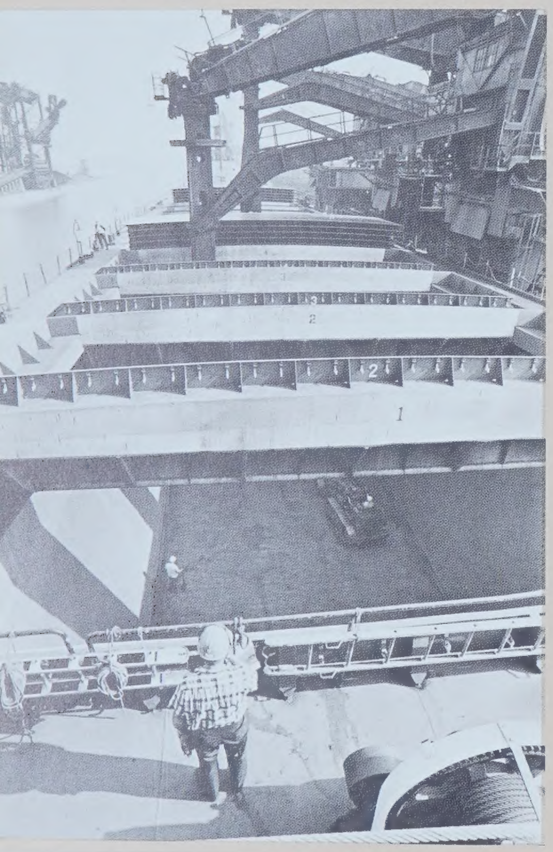
The bulk fleet carried a record quantity of iron ore during the season and operated three vessels to the middle of January 1974.

Increased business in the long-haul trades of iron ore and stone, combined with efficient operating patterns, offset a continued reduction in short-haul coal tonnage to produce a satisfactory season for the self-unloader fleet.

The earnings of the crane vessel fleet were below expectations due to the shortage of pig iron and scrap for water delivery.

Although the energy crisis forced some dislocation in sources of supply, both diesel and bunker "C" oil supplies were generally adequate, though at much higher cost than anticipated. The Mandatory Fuel Allocation Regulations published by the Federal Energy Office are generally favorable to the water transportation industry and, hopefully, we will experience little, if any, operating disruption due to fuel problems in 1974.

Taconite pellets being unloaded from one of our large bulk vessels at a lower lake port.



Upgrading and modernization of the fleet to better serve our customers' current and future needs continued. The addition of 120-foot mid-body sections to the Armco and the Reserve during the winters of 1973-74 and 1974-75, respectively, will increase the overall length of each vessel from 647 to 767 feet, and mid-season carrying capacity from 20,700 to 26,500 gross tons each.

Conversion of the "Maritime Class" vessel, J. H. Hillman, Jr., to a self-unloader will be completed in time for the 1974 navigation season.

Bow thrusters are being installed on the self-unloaders Tomlinson and Sylvania to improve their operating capabilities. In addition, their boilers are being converted to burn oil in order to reduce atmospheric contaminants in stack emissions and to provide engine room efficiencies.

The Crispin Oglebay, a self-unloader, was sold for scrap at the end of the operating season.

Inventories of raw materials at our customers' facilities are expected to be at low levels when the 1974 navigation season opens, thus requiring an early start of the entire fleet. With a continued strong economy and successful labor negotiations in the steel and coal industries, 1974 could be another very successful year.

QUARTZITE AND INDUSTRIAL QUARTZ SAND

Central Silica Company

Shipments from Central Silica Company's Central and Millwood divisions increased modestly in 1973. Profitability, however, was below expectations because of inflationary pressures and extraordinary quarry expenses at Central's Glass Rock Plant.

The Ayers Mineral Division in Lexington, Tennessee, was permanently closed because of reduced shipments, resulting from customers' changing foundry technology.

Despite the continuance of Federal price and wage controls, a year of unprecedented increases in the cost of doing business was experienced. The controls created shortages in many items critical to operations. Among these are paper bags, wooden pallets, fuels and various types of structural steel.

A three-year contract was successfully negotiated with our labor union and, subsequently, a price increase was effected to partially offset increased labor and operating costs in 1974.

A new 3-yard power shovel was purchased for the Central quarry and construction began on a 60-foot dam to impound wash and make-up water. The dam is scheduled to be completed during the third quarter of 1974. At Millwood, a modern, high-speed sand bagger was installed.

Major capital improvements planned for 1974 include the construction of a 2½-mile aerial tramway and a new quarry at Glass Rock, Ohio.

Ever-changing interpretations of the air and water pollution laws by the regulatory agencies have imposed sizable new costs on the Millwood operation.

The effect of the energy crisis on the automobile and building industries, which many of our customers depend on, is uncertain. It is likely that there will be little real growth over the next twelve months in the industries we serve. Consequently, a moderate decline is forecast for Central Silica in 1974.

Company-owned covered hopper railroad cars facilitate delivery of dry bulk silica sand to customers' plants.

HOT TOPS

Ferro Engineering Division

While steel production increased in 1973 to record levels, Ferro Engineering's penetration of this market improved at even a greater rate. The increased sales of our hot top products enabled us to optimize our manufacturing capacity. Difficulties in raw material supply, both quantity and price, required significant changes in manufacturing processes with various effects on efficiency and potential. The ability of Ferro's personnel to resolve these complex problems, while meeting the requirements of customers, contributed importantly to profitability in 1973.

In response to the numerous Federal environmental and safety regulations, considerable time, effort and expense are devoted to health and safety programs.

Capacity at the Hamilton Plant in Ontario, Canada, was increased in 1973, and record shipments were again experienced. Further production gains are expected this year, including the introduction of some new product lines to meet customer requirements.

Greater participation in the market, improved efficiency and better profitability are anticipated in 1974. Tempering factors, however, are the potentially serious problems of inflation, energy and material shortages, and transportation difficulties.

IRON ORE AND OTHER MINERALS

Eveleth Taconite Company/Fluorspar Operations

Eveleth Taconite Company, managed and partly owned by Oglebay Norton Company, produced 2,065,000 tons of iron ore pellets in 1973.

Plant modification to balance the productive capacity of the concentrator and the pelletizing plant was completed on schedule. Operating results to date indicate that the designed 10% increase in production capacity will be exceeded.

A strong demand for iron ore is expected through 1974 and we have sold our pro rata share of Eveleth's production for the year. In 1973 a modest increase in the price of pellets partially offset rising costs for supplies, services and labor.

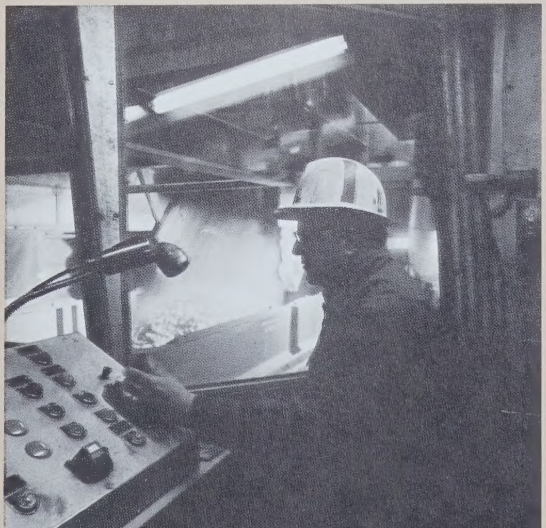
Programs were initiated to explore and develop other iron ore projects in North America to strengthen the company's iron ore position in the future.

The Company continues its non-ferrous mineral exploration program, principally in Canada, the United States and Mexico. It has joined Financier Banamex, S.A., Mexico City, to form a mining company, ONMEX, S.A. de C.V. Oglebay Norton will provide its experience and technical assistance to the newly formed company, which will engage in mineral exploration and mining activities in Mexico.

Increased steel demand and better product acceptance permitted the fluorspar briquetting plant at Brownsville, Texas, to operate at designed capacity, and 1974 is expected to be another good year for the plant. Other mineral sales showed improvement during 1973.

Ferroboard materials being inspected and readied for packaging in one of our manufacturing facilities.

Operator loading crude taconite ore into railroad cars at the Thunderbird Mine, Eveleth Taconite Company.



COAL

Saginaw Mine/Ceredo Coal Loading Terminal

A strong second half followed a slow first half in 1973 as the developing energy shortage brought new demands for coal.

The market for bituminous coal was relatively slow until midyear because of high inventories carried forward from 1972 and government restrictions on the sulfur levels of coal burned. Government restrictions on sulfur were relaxed as supplies of other fuels used for generating electricity were severely curtailed, resulting in a soaring demand for utility coal. The additional requirements of a healthy steel industry and a strong export market created a substantial shortage of coal by the end of the year—a situation which is expected to continue through 1974.

The Saginaw Mine continued to suffer absenteeism, dropping productivity below the previous year's level. In order to better serve our utility customer, we are seeking additional coal reserves and conducting trials of new mining machinery to improve efficiency.

Our agency coal sales decreased during the year due to severe operating problems at producers' mines. However, brokerage tonnage increased, with a strong demand developing after the miners' vacation period.

The Ohio River coal transfer terminal at Ceredo, West Virginia, operated at capacity for the second consecutive year. To assure continued peak operations at this terminal, contracts have been entered into with utility and steel industry customers. Also, plans have been approved to improve and expand this facility over the next two years.

The outlook for 1974 is very favorable; however, production could be adversely affected by shortages of materials used in the coal mining industry and the expiration of the United Mine Workers contract in November.

Our Saginaw deep mine in southeastern Ohio produces quality coal for the utilities industry.

FOUNDRY OPERATIONS

T & B Foundry Company

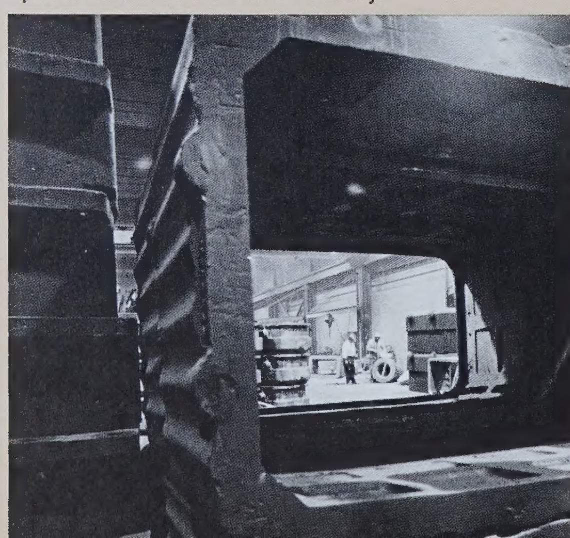
T & B Foundry Company enjoyed a 42% sales growth in 1973; yet traditional steel industry sales accounted for only a small part of this gain. The company's continuing market diversification program developed new accounts in automotive, turbine, metal forming and machine tool industries.

During the year, the company was inspected by the Occupational Safety and Health Administration and was found to be in compliance with existing regulations.

Plans for 1974 call for a new foundry bay which will add 25,000 square feet of production space. The new facility, scheduled for completion in December 1974, will increase production capacity by 40%. We will also add a large no-bake sand mixer capable of producing molds for castings up to 50,000 pounds each in gray or ductile iron. This new equipment will improve our ability to serve the market for large castings.

Sales demand in 1974 is expected to outperform manufacturing capacity, with a resulting increase in order backlog and some operating adjustments dictated by supply shortages.

Castings are custom finished to engineered specifications at our T & B Foundry.



DOCK OPERATIONS

Bay City/Saginaw

Bay City Seaway Terminal experienced a good year in tonnage and profitability. Although year-end results were somewhat less than forecast, tonnage handled shows a decline less than other Great Lakes seaway terminals.

Improvements to the Bay City dock included blacktopping of 42,000 square feet to provide a hard-surface storage area for cargo, and a shrink-pack machine to plastic-wrap pallets of materials for protection during export.

A large crawler crane temporarily located on the dock during the season enabled Bay City to handle containers and some heavy-lift movements of machinery. A total of 385 containers was moved on and off ships. The container business generated was below expectations and does not warrant, at this time, the sizable investment in special equipment necessary to continue offering this type of service.

Preliminary tonnage estimates from Bay City customers for the 1974 season appear to be at about the same level as last year.

Saginaw Dock, which handles mostly pig iron and scrap iron, experienced a decline in tonnage and a disappointing profit year in 1973. This situation is characteristic of periods when scrap is in short supply due to the steel and auto industries operating at extremely high production levels.

In September we announced the sale of our Toledo Overseas Terminals Co. and early in December, the facilities and equipment were transferred to the new owners.

General cargo for export and import is handled at our Bay City Seaway Terminal.

DIRECTORS

Keith S. Benson Executive Vice President—Administration and Finance
Courtney Burton Chairman of the Board
John J. Dwyer President
Robert I. Gale, Jr. President, Mid-West Forge Corporation, Cleveland, Ohio
Arthur F. Harrison President and Treasurer, Central Silica Company, Zanesville, Ohio
J. Gordon Hutchinson Vice President, Rossville Yarn Processing Company, Rossville, Georgia
George F. Karch Honorary Chairman, The Cleveland Trust Company, Cleveland, Ohio
James J. Nance Chairman, First Union Real Estate Equity and Mortgage Investments, Cleveland, Ohio
Alfred M. Rankin Partner, Thompson, Hine and Flory, Cleveland, Ohio
Herbert S. Richey President and Chief Executive Officer, The Valley Camp Coal Company, Cleveland, Ohio
Ellery Sedgwick, Jr. Chairman of the Board, Medusa Corporation, Cleveland, Ohio
Edward W. Sloan, Jr. Consultant, Past President of the Company, Gates Mills, Ohio
Renold D. Thompson Executive Vice President—Operations
Fred R. White, Jr. Vice Chairman of the Board and Senior Vice President

HONORARY DIRECTORS

Edgardo A. Correa Retired, South Yarmouth, Massachusetts
Donald W. Mitchell Retired, Ashtabula, Ohio
Henry P. Rankin Retired, Cleveland, Ohio

OFFICERS

Courtney Burton Chairman of the Board
Fred R. White, Jr. Vice Chairman of the Board and Senior Vice President
John J. Dwyer President
Keith S. Benson Executive Vice President—Administration and Finance
Renold D. Thompson Executive Vice President—Operations
Walter R. Herron Vice President and General Manager—Ferro Engineering Division
D. Kelly Campbell Vice President—Iron Ore Operations
Walter M. Charman, Jr. Vice President
George Dowidchuk Vice President—Manufacturing Ferro Engineering Division
Albert G. Ferdinand Vice President—Marketing Ferro Engineering Division
Robert A. Thomas Secretary and General Counsel
Richard J. Kessler Treasurer
Alfred F. Savage Assistant Vice President—Mining
John Limbocker, Jr. Assistant to the President
David A. Kuhn Assistant Secretary
Lytton S. Beman, Jr. Assistant Treasurer
Walter L. Gonska Assistant Treasurer

SUBSIDIARIES

Central Silica Company—Arthur F. Harrison President
T & B Foundry Company—Frank P. Gill President
Canadian Ferro Hot Tops Limited (Canada)—Walter R. Herron President

Steamer Edmund Fitzgerald crossing Lake Erie bound for Toledo with a cargo of taconite pellets.

Oglebay Norton

Jet piercer drilling blast holes in taconite ore in preparation for blasting at the Thunderbird Mine.

Cargo packaged for export being loaded aboard a foreign vessel at one of our dock facilities on the Great Lakes.

Pouring ductile iron with tensile strength up to 100,000 PSI at our T & B Foundry.

Shuttle car receiving coal from continuous miner at mine face.

Inventories of Ferro Hot Top materials are maintained to facilitate rapid delivery to customers' steel plants.

Mining quartzite at Central Silica's Glass Rock quarry in Ohio.

Fairlane Plant, Eveleth Taconite Company.

1973 ANNUAL REPORT

Oglebay Norton

FINANCIAL STATEMENTS

Stockholders are cordially invited to attend the Annual Meeting of the Company, which will be held at 2:00 p.m. Wednesday, April 17, 1974, in the General Offices of the Company located in the Hanna Building, Cleveland, Ohio.

STATEMENT OF CONSOLIDATED INCOME

OGLEBAY NORTON COMPANY AND SUBSIDIARIES
Years ended December 31, 1973, and December 31, 1972

	1973	1972
INCOME		
Net sales and operating revenues	$70,988,077	$65,065,381
Sales commissions, royalties, and management fees	1,729,793	1,249,459
Interest and miscellaneous	1,486,585	691,530
	74,204,455	67,006,370
COSTS AND EXPENSES		
Cost of goods sold and operating expenses	56,838,031	52,416,028
General, administrative and selling expenses	7,239,260	6,696,653
	64,077,291	59,112,681
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	10,127,164	7,893,689
INCOME TAXES		
Currently payable	252,000	1,629,635
Deferred	3,798,000	1,535,365
	4,050,000	3,165,000
INCOME BEFORE EXTRAORDINARY ITEM	6,077,164	4,728,689
EXTRAORDINARY ITEM—Note H	—0—	(1,800,000)
NET INCOME	$ 6,077,164	$ 2,928,689
INCOME PER COMMON SHARE—Note A		
Primary:		
Income before extraordinary item	$ 6.01	$ 4.54
Extraordinary item	—0—	(1.94)
Net income	$ 6.01	$ 2.60
Fully diluted:		
Income before extraordinary item	$ 5.44	$ 4.23
Extraordinary item	—0—	(1.61)
Net income	$ 5.44	$ 2.62

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

OGLEBAY NORTON COMPANY AND SUBSIDIARIES
Years ended December 31, 1973, and December 31, 1972

	1973	1972
SOURCE OF FUNDS		
From operations:		
Income before extraordinary item	$ 6,077,164	$ 4,728,689
Items not requiring current outlay of funds:		
Depreciation and amortization	3,918,752	4,004,466
Deferred income taxes	3,798,000	1,535,365
TOTAL FROM OPERATIONS BEFORE EXTRAORDINARY ITEM	13,793,916	10,268,520
Extraordinary item	—0—	(1,800,000)
TOTAL FROM OPERATIONS	13,793,916	8,468,520
Increase in prior year's deferred taxes	—0—	1,080,000
Disposition of fixed assets	3,007,120	1,231,432
Decrease in deferred charges	269,212	204,548
	17,070,248	10,984,500
USE OF FUNDS		
Increase in capital construction fund	1,702,451	5,217,899
Payment of dividends	2,499,398	2,365,324
Expenditures for properties and equipment	8,881,763	2,359,117
Purchase of treasury shares	33,250	268,875
Increase in investments	1,347,464	294,149
	14,464,326	10,505,364
INCREASE IN WORKING CAPITAL	$ 2,605,922	$ 479,136
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increases (decreases) in current assets:		
Cash and marketable securities	$ 208,232	$ 615,672
Notes and accounts receivable	1,935,710	164,146
Inventories	1,199,912	(375,944)
Prepaid vessel rent, insurance, and other expenses	(73,588)	(83,636)
	3,270,266	320,238
Decreases (increases) in current liabilities:		
Accounts payable	(518,849)	189,888
Payrolls and other accrued compensation	353,111	195,120
Accrued taxes and other expenses	(790,992)	(598,710)
Income taxes	292,386	372,600
	(664,344)	158,898
INCREASE IN WORKING CAPITAL	$ 2,605,922	$ 479,136

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

OGLEBAY NORTON COMPANY AND SUBSIDIARIES
December 31, 1973, and December 31, 1972

	1973	1972
ASSETS		
CURRENT ASSETS		
Cash	$ 927,177	$ 951,499
Marketable securities—Note A	15,412,673	15,180,119
Notes and accounts receivable, less allowances (1973—$158,189; 1972—$122,622)	11,760,395	9,824,685
Inventories—Note A		
Finished products and materials	3,417,872	2,404,572
Operating supplies and materials	1,233,353	1,046,741
	4,651,225	3,451,313
Prepaid vessel rent, insurance and other expenses	1,187,397	1,260,985
TOTAL CURRENT ASSETS	33,938,867	30,668,601
INVESTMENTS—Note B	8,611,372	7,648,319
CAPITAL CONSTRUCTION FUND—Notes A and C	8,757,350	7,054,899
PROPERTIES AND EQUIPMENT—Note A		
Vessels, docks and related equipment	56,076,961	52,396,469
Mining properties and equipment	13,519,945	15,352,924
Manufacturing properties and equipment	10,854,875	10,406,591
	80,451,781	78,155,984
Less allowances for depreciation, amortization and depletion	35,487,201	35,531,706
	44,964,580	42,624,278
DEFERRED CHARGES	1,139,088	1,408,300
	$97,411,257	$89,404,397

Oglebay Norton

	1973	1972
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 2,850,516	$ 2,331,667
Payrolls and other accrued compensation	2,062,268	2,415,379
Accrued taxes and other expenses	2,861,687	2,070,695
Income taxes	127,401	419,787
TOTAL CURRENT LIABILITIES	7,901,872	7,237,528
DEFERRED INCOME TAXES—Note A	18,990,477	15,192,477
STOCKHOLDERS' EQUITY		
STOCKHOLDERS' EQUITY—Notes D and E		
Preferred Stock, without par value, redemption value $50 per share:		
Authorized 400,000 shares; issued 188,950 shares at stated amount		
Series A, 5½% cumulative convertible, 148,950 shares	1,353,750	1,353,750
Series B, 5% cumulative convertible, 40,000 shares	407,350	407,350
Common Stock, par value $1 per share:		
Authorized 3,000,000 shares; issued 1,019,951 shares	1,019,951	1,019,951
Additional capital	7,034,569	7,034,569
Retained earnings	63,918,938	60,341,172
	73,734,558	70,156,792
Less common shares in treasury, 1973—94,470, 1972—93,470, at cost	3,215,650	3,182,400
	70,518,908	66,974,392
	$97,411,257	$89,404,397

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

OGLEBAY NORTON COMPANY AND SUBSIDIARIES
Years ended December 31, 1973, and December 31, 1972

	1973	1972
Balance at beginning of year	**$60,341,172**	$59,777,807
Net income	**6,077,164**	2,928,689
	66,418,336	62,706,496
Cash dividends:		
Common Stock, $2.15 per share (1972—$2.00)	**1,989,786**	1,855,712
Preferred Stock:		
Series A, $2.75 per share	**409,612**	409,612
Series B, $2.50 per share	**100,000**	100,000
	2,499,398	2,365,324
Balance at end of year	**$63,918,938**	$60,341,172

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A—ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. Intercompany transactions and accounts have been eliminated upon consolidation.

Marketable Securities: Marketable securities are stated at cost plus accrued interest which approximates market.

Inventories: Inventories are stated at the lower of average cost or market.

Properties and Equipment: Properties and equipment are carried at cost. Maintenance, repairs, and minor renewals are charged to income in the year incurred. Betterments are capitalized. When individual items of mine equipment are retired or disposed of in the normal course of business, the allowance for depreciation is charged with the cost of the asset and credited with any proceeds received; no gain or loss is recognized in income. For other retirements or disposals, the cost of the asset and allowance for depreciation are removed from the accounts and the resulting gain or loss recognized in the statement of income.

Depreciation: The Company provides depreciation on the straight-line method over the estimated useful lives of the assets.

Exploration and Development Costs: Mine exploration and quarry development costs are charged to expense as incurred. Mine development costs are deferred and written off over the estimated useful life of the mine.

Income Taxes: For income tax purposes, the Company's deductions for depreciation and certain other costs (including deposits into the Capital Construction Fund) are computed differently than the amounts charged in the accounts for such costs. Amounts equal to the resulting tax reductions are charged to income (as income tax) and credited to deferred income taxes. The deferred taxes are credited to income (as income tax) in periods when depreciation and certain other costs charged in the accounts exceed the amounts deductible for tax purposes.

No income tax has been provided for unremitted earnings of consolidated subsidiaries (1973—$4,700,000; 1972—$3,600,000) since alternatives are available to the Company which would make it possible to eliminate tax on amounts which might be paid.

Investment credits are used to reduce the income taxes in the year which they arise.

Income Per Common Share: Primary income per common share is based on the average number of shares outstanding after provision for preferred dividends and stock options. Fully diluted income per common share is based on the average number of shares outstanding, assuming conversion of preferred shares and stock options at the beginning of the year.

NOTE B—INVESTMENTS

Investments include $5,689,727 and $5,363,446 at December 31, 1973 and December 31, 1972, respectively, representing a 15% interest in Eveleth Taconite Company, which is 85% owned by another company. The investment is stated at cost which is the equity in underlying net assets. Eveleth has no income as the shareholders reimburse it for all costs incurred in proportion to their ownership, and the production of the mine is taken by the stockholders in like proportion.

The Company's investments and advances to affiliated companies include a 33% ownership of Western Navigation Company, a dock operation, and a 60% ownership of Laxare, Inc., a coal mining operation. Laxare, Inc. is not consolidated because management does not consider this investment to be permanent. The investment in these companies is carried at cost, which approximates the equity in the underlying net assets.

NOTE C—CAPITAL CONSTRUCTION FUND

The fund consists of marketable securities and was created under provisions of the Merchant Marine Act of 1970. Maximum deposits to the fund are limited to taxable income from vessel operations, and may be deducted from such taxable income in the year earned.

Amounts in the fund may be withdrawn for investment in vessels without incurring income tax liability. However, the depreciable tax basis of the vessels will be reduced by the amount of such investment.

NOTE D—PREFERRED STOCK

The preferred stock is issuable in series and the Board of Directors is authorized to fix the number of shares and designate the terms of each issue.

Series A and B shares are entitled to one vote per share and the shares, at the option of the holder, may be converted into common stock at the conversion price in effect at the conversion date (currently share for share). Preferred shares are redeemable at the option of the Company subsequent to December 31, 1976, at $50 per share (aggregating $9,447,500) plus accrued dividends, and are entitled to a similar amount in the event of liquidation.

NOTE E—STOCK OPTIONS

In 1973, the stockholders approved an employees' stock option plan, which authorized the granting of options for 100,000 shares of common stock. Under the plan options may be granted at a price not less than the fair market value on the date of grant. Options become exercisable in installments of one fourth of the shares subject to option during the second through fifth years after date of grant. Common treasury shares or authorized but unissued shares may be used in the plan.

During the year, options were granted for 18,800 shares at $32.25 a share, aggregating $606,300, and are outstanding at December 31, 1973.

There were 81,200 shares of common stock at December 31, 1973 available for the future granting of options.

NOTE F—PENSIONS

The Company and its subsidiaries have several noncontributory pension plans covering substantially all of their employees. The total pension expense for 1973 and 1972 amounted to $1,406,000 and $1,003,000, respectively. This includes, as to certain of the plans, amortization of prior service costs over periods not exceeding 25 years. The actuarially computed values of vested benefits at December 31, 1973 exceed fund assets by $2,280,000 (1972—$1,729,000).

The Company also pays into a union plan which provides pension and other benefits for hourly-rated employees at its coal mines. Payments are based upon a specified rate per ton of coal produced, and amounted to $399,690 in 1973 (1972—$682,599).

NOTE G—RENTALS AND COMMITMENTS

Total rental expense for all leases amounted to:

	1973	1972
Minimum rental on financing lease	$ 570,000	$ 570,000
Other leases:		
Minimum rentals	646,888	701,489
Contingent rentals	200,071	234,684
	$1,416,959	$1,506,173

Contingent rentals are based on tonnage handled at dock facilities.

Future minimum rental commitments as of December 31, 1973 for all noncancelable leases are as follows:

	Financing Lease	Other Leases		
	Vessel Charter	Offices and Buildings	Equipment	Total
1974	$ 570,000	$ 249,512	$ 69,139	$ 888,651
1975	570,000	249,512	69,480	888,992
1976	570,000	236,312	8,685	814,997
1977	570,000	199,036		769,036
1978	570,000	183,636		753,636
1979—1983	2,280,000	82,115		2,362,115
	$5,130,000	$1,200,123	$ 147,304	$6,477,427

The estimated present value of the minimum annual rental commitment for the vessel charter financing lease, based on the stated 5% interest rate, amounted to $3,958,000 at December 31, 1973 and $4,313,000 at December 31, 1972. If this lease had been capitalized there would have been no significant effect on net income for 1973 or 1972.

Commitments for expenditures relating to vessels and other items of properties and equipment were approximately $7,000,000 at December 31, 1973.

NOTE H—EXTRAORDINARY ITEM

The extraordinary item represents the estimated loss from permanently closing the Norton Mine in August, 1972 after giving effect to applicable income tax reductions of $1,036,000 of which $913,000 is deferred taxes.

ACCOUNTANTS' REPORT

Board of Directors
Oglebay Norton Company
Cleveland, Ohio

We have examined the consolidated financial statements of Oglebay Norton Company and subsidiaries for the year ended December 31, 1973. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements for the preceding year were examined by other independent accountants.

In our opinion, the accompanying balance sheet and statements of income, retained earnings, and changes in financial position present fairly the consolidated financial position of Oglebay Norton Company and subsidiaries at December 31, 1973, and the consolidated results of their operations and changes in stockholders' equity and financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Cleveland, Ohio, February 15, 1974

10 YEAR SUMMARY

	1973	1972	1971
OPERATIONS			
Gross operating income	**$72,717,870**	$66,314,840	$63,131,407
Income before income taxes and extraordinary items	**10,127,164**	7,893,689	6,919,338
Income before extraordinary items	**6,077,164**	4,728,689	4,150,338
Extraordinary items, less applicable taxes	—	(1,800,000)	—
Net income	**6,077,164**	2,928,689	4,150,338
Cash dividends paid	**2,499,398**	2,365,324	2,387,074
Net income invested in the business	**3,577,766**	563,365	1,763,264
Depreciation, amortization and depletion charged to costs and expenses	**3,918,752**	4,004,466	3,901,352
Expenditures for properties and equipment, including investment in the Eveleth Taconite project	**9,724,613**	2,513,804	4,436,201
FINANCIAL POSITION			
Current ratio	**4.30**	4.24	4.10
Working capital	**26,036,995**	23,431,073	22,951,937
Total properties, net	**44,964,580**	42,624,278	46,015,838
Total assets	**97,411,257**	89,404,397	87,566,313
Long-term liabilities	—	—	—
Total stockholders' equity	**70,518,908**	66,974,392	66,679,902
Common stockholders' equity	**61,071,408**	57,526,892	57,232,402
DATA PER COMMON SHARE (*)			
Income before extraordinary items	**6.01**	4.54	3.88
Extraordinary items, less applicable taxes	—	(1.94)	—
Net income	**6.01**	2.60	3.88
Cash dividends paid	**2.15**	2.00	2.00
Equity per common share	**65.99**	62.09	61.28
OTHER STATISTICS			
Preferred shares outstanding at year end	**188,950**	188,950	188,950
Common shares outstanding at year end	**925,481**	926,481	933,981
Number of stockholders at year end	**1,196**	1,201	1,246

(*) Per share figures, except equity per common share, are based on the average number of common shares outstanding during each year and have been computed after provision for annual preferred dividends, and in 1973 stock options. Equity per common share is based on the actual number of common shares outstanding at year end.

Acquisitions in 1968 and 1969 were treated as poolings of interest. In each case the year prior to the year of acquisition was restated. Figures for prior years are as reported in annual reports for the respective years.

Oglebay Norton

1970	1969	1968	1967	1966	1965	1964
$60,710,933	$62,894,005	$61,804,168	$62,169,252	$64,513,933	$54,616,612	$51,420,176
7,116,795	8,705,350	8,403,704	8,287,406	8,739,346	7,451,491	6,805,890
4,350,766	5,261,735	5,009,492	4,826,129	4,814,346	4,051,491	3,605,890
—	—	—	2,844,798	—	—	—
4,350,766	5,261,735	5,009,492	7,670,927	4,814,346	4,051,491	3,605,890
2,468,164	2,445,366	2,309,553	2,317,516	1,529,927	1,325,936	1,223,941
1,882,602	2,816,369	2,699,939	5,353,411	3,284,419	2,725,555	2,381,949
3,885,355	3,471,337	3,462,557	3,580,864	3,670,312	2,440,106	2,702,402
7,647,569	4,150,812	5,032,228	3,450,002	4,547,849	10,324,015	5,329,993
5.12	4.72	3.05	3.67	2.15	2.33	2.20
23,393,777	27,063,250	25,056,573	21,887,784	11,888,284	9,917,392	9,510,807
45,720,378	41,714,846	41,006,228	39,541,675	43,180,893	42,276,316	39,261,082
83,491,567	84,072,272	86,259,108	77,887,617	74,361,552	69,092,991	61,331,238
—	427,000	445,493	477,518	2,515,536	4,586,856	1,151,928
66,064,388	65,027,511	62,665,392	58,970,817	50,878,263	47,593,844	44,664,298
56,616,888	55,580,011	53,217,892	51,523,317	50,878,263	47,593,844	44,664,298
3.92	4.74	4.47	4.37	4.72	3.97	3.54
—	—	—	2.82	—	—	—
3.92	4.74	4.47	7.19	4.72	3.97	3.54
2.00	2.10 (1)	2.30 (1)	2.30 (1)	1.50	1.30	1.20
58.36	55.91	52.89	51.20	49.88	46.66	43.79
188,950	188,950	188,950	148,950	—	—	—
970,101	994,051	1,006,251	1,006,251	1,019,951	1,019,951	1,019,951
1,241	1,302	1,342	1,360	1,333	1,337	1,456

(1) Includes dividends paid by subsidiaries prior to acquisition by the Company.

Oglebay Norton
1200 HANNA BUILDING
CLEVELAND, OHIO 44115